Colorado Legislative Council Staff F iscal Note

STATE FISCAL IMPACT

Fiscal Analyst: Alex Schatz (303-866-4375)

TITLE: CONCERNING A STATE INCOME TAX MODIFICATION FOR INCOME RECEIVED

FROM THE COLORADO MILITARY FAMILY RELIEF FUND.

Fiscal Impact Summary	FY 2013-2014	FY 2014-2015	
State Revenue General Fund - reduction	(Up to \$3,946)	(Up to \$7,871)	
State Expenditures	See State Exper	See State Expenditures section.	
FTE Position Change			
Fffective Date: August 7, 2013, if the General Assembly adjourns on May 8, 2013, as scheduled, and			

Effective Date: August 7, 2013, if the General Assembly adjourns on May 8, 2013, as scheduled, and no referendum petition is filed.

Appropriation Summary for FY 2013-2014: None required.

Local Government Impact: None.

Summary of Legislation

This bill establishes a deduction from taxable income for military families receiving a grant from the Military Family Relief Fund. The total amount of the grant received by a family is deductible from the taxable income reported on and transferred from the taxpayer's federal form, assuming the grant was reported as income. The deduction takes effect for tax year 2014 and subsequent tax years.

Background

States with military relief funds, including Colorado, typically denote money distributed to qualified military families as a grant. Colorado statute provides that the Colorado National Guard Foundation "shall make grants" from the Military Family Relief Fund (Section 28-3-1503 (1)(a), C.R.S.). The taxability of funds received from the Military Family Relief Fund depends on a number of factors, including the classification of the moneys as a gift or a grant. Government grants above \$600 are generally taxable and may be reported by the government making the payment on Internal Revenue Service Form 1099-G. Gifts provided with "donative intent" are nontaxable up to an annual allowance of \$12,000 per taxpayer; however, federal law provides that a taxpayer may not exclude from their reported gross income "any amount transferred by or for an employer to, or for the benefit of, an employee" (26 U.S.C. § 102 (c)). Under existing law, the DOR interprets grants from the Military Family Relief Fund as a nontaxable gift.

Approximately \$170,000 in grants are annually paid to between 30 and 35 grantees under Colorado's Military Family Relief Fund program, with an average grant of approximately \$5,000. It is unknown whether grantees currently report the grant as income for federal or state tax filings.

State Revenue

State revenue to the General Fund is reduced by up to \$7,871 per year under the bill. At Colorado's income tax rate of 4.63 percent, a total distribution of \$170,000 in grants represents up to \$7,871 in annual income tax revenue that military families may have paid. A one-half year revenue impact of up to \$3,946 accrues in FY 2013-14, with the potential full-year impact of \$7,871 beginning in FY 2014-15. The fiscal note assumes that only a portion of fund recipients are likely to have claimed the grant as income under current law, as some taxpayers may receive guidance from the DOR or would not claim the income for other reasons.

State Expenditures

The Department of Revenue (DOR) will experience a minimal increase in workload to address filings or questions submitted by taxpayers affected by the bill. The DOR may be required to adjust a taxpayer's state return if that taxpayer has claimed a grant from the fund as federally taxable income. Based on the small number of affected taxpayers and existing practices in the Department of Revenue, clarifying the taxability of grants from the Military Family Relief Fund will result in no significant workload increase in the DOR and no need for new appropriations.

Departments Contacted

Revenue Military and Veterans Affairs Human Services
Law Health Care Policy and Financing Personnel